

Realty Trust Review

November 14, 1975

VOL. VI, No. 21

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 New Grant closings hit 14 REIT stores, lead to dividend omission by Summit Prop.5

VALUE GUIDE TO REITS REVIEWED THIS ISSUE

Trust	Rel. Appeal	Port. Yield	-12 Mo.Port. Last	Chng.- E.Next	Lever Ratio	Price	Ann. Yield**	Div. Reinv.	Page
Baird & Warner	4	8.31%	-27%	0%	1.20	\$ 7.38	16.3%	No	8
Fraser Mtg.	3	10.27	7	-20	2.04	8.25	14.5	No	6
Lomas & Nett.	4	9.37	-12	-7	1.67	13.00	15.7	No	7
AVERAGE		9.32%	-11%	-9%	1.64		15.5		

**Based on annualized latest qtr.

REIT BONDS: POSSIBLE TENDER OFFERS ADD SPICE TO TAKEOUT GAME

It happened the other day again: a rumor floated through Wall Street brokerage firms that a tender offer was imminent for Barnett Mortgage bonds. Sounds wild at first blush but it is symptomatic of what you can expect for REIT bonds over the near-term: volatile price action caused by spates of rumors.

This is starting because of NJB Prime Investors' successful tender for \$13.2 million of its debt in September, at 20-cents on the dollar. Now Mortgage Growth Investors is offering to buy back \$1 million of its 7-3/4% convertible subordinated notes at 65 cents on the dollar by Nov. 24. The MGI notes were privately placed to 12 institutional lenders several years ago and mature in 1986; they are convertible at \$12.21/share, vs. MGI quotes of about 4. MGI made the offer because it believed repurchase would be a good investment of its funds now.

But you should not generalize from these two instances into expecting a rash of similar tender offers, we think. That's why rumors of such tenders will likely proliferate for some time without much substance or real action. For one thing, the NJB and Mortgage Growth tenders stemmed from dramatically different situations, apart from the fact that debt was selling (or could be expected to sell) well below par. NJB Prime was in desperate straits and likely would have faced bankruptcy had not its banks agreed to put up another \$5 million for the tender offer and thereby simplify its complex capital structure. Mortgage Growth on the other hand is unleveraged except for the convertibles and its portfolio is sound enough that the trust needed to find good outlets for investment.

Somewhere between these extremes we think there are some interesting speculative items in the REIT bond market today for investors willing to assume risks outlined below. These issues are of continuing interest to subscribers and we have commented upon them frequently beginning with the April 11, 1975 issue. Some suggestions at this market juncture:

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PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS / SUBSCRIPTIONS \$ 115 ANNUALLY / SINGLE COPY \$ 7 / GROUP RATES ON REQUEST

1. Near-term maturities carry both the highest yield and highest risk. This is so because many trusts with debt maturities before 1980 are also those most deeply troubled by problem loans. With the real estate market continuing soggy, their ability to set their affairs in order and meet these maturities is seriously in question. Thus their debt generally sells at deep discounts where current yield is generous and yield to maturity truly astounding. For instance, the Chase Manhattan Trust 7½s of 1983 yield about 25% currently and yield to maturity is about 8% higher. The Justice Mtg. 7-3/4s of 1979 are priced to yield 43% currently while yield to maturity would add another 100% annually to purchases at today's prices. (This is so because the investor would normally accrue a portion of the difference between purchase price and par each year to maturity; with Justice bonds at 18 and maturing in four years, the investor would accrue one-fourth of the difference between 18 and 100 each year, or an accrual of about 20 on a purchase price of 18.) Redemption may not happen, and of course that's the risk involved.

Some other points on maturity should be noted. First, in the hey-days of exotic "creative" financing for REITs, many REITs not strong enough to get really good long term financing settled upon short-term funding; now their real estate portfolio has gone to pot and they face maturing debt. So very short-term maturities are a real sign of caution for investors. Second, because these near-term maturities could plunge a REIT into bankruptcy if not paid when due, its lending banks are under great pressure to find ways of overcoming this stumbling block. Thus these issues may be ripe for a tender funded by banks just to keep the REIT alive. These tenders wouldn't normally be at par but like the NJB Prime tender, could take bondholders out of a very shaky situation with some cash.

2. Tender offers probably will be used only as a last resort. Since banks must fund nearly all possible tenders for REIT debt, their action is crucial. Recent events suggest some guidelines. First, banks aren't at all anxious to pour new money into REITs. On an individual basis, banks are currently balking at paying off holders of First Mortgage Investors 9% senior debentures who've opted for early maturity, even though the amount of money--\$19 million--is small compared to FMI's \$400 million bank debt. In this case, the banks seem motivated more by fear of legal entanglements than the money involved, and existence of an involuntary Chapter X petition against FMI further complicates the matter. On an industry basis, our tallies (page 3) show about \$900 million public senior and subordinate debt maturing before 1983, when maturities tail off sharply. If banks were to decide to tender for this debt at an average 33-cents per dollar, they'd have to add about \$300 million to about \$7½ billion loans to these REITs. That would increase bank exposure by only about 4%.

Second, banks are likely to keep trusts with big names and big debt afloat, even with tenders. This implies that bank-sponsored trusts like Chase Manhattan Trust will somehow be kept going so long as they retain their name and sponsorship. This may not be as easy as it sounds because some bank managements are now concluding that relationship with a deeply troubled REIT does severe harm to their local images as sound bankers. Moreover, pressures on advisory fees are forcing more deeply troubled REITs to become self-administered. In the last week Continental Mortgage Investors, Alison Mortgage and Texas First Mortgage have all terminated contracts with advisers. Continental is the second largest construction lending REIT while the other two end affiliations with well known mortgage bankers. These are only the most recent examples of a trend of the last year which can be expected to persist.

3. A package formula is the only sensible approach to the takeout game. Right now we believe numerous REITs are discussing tender offers for their debt with their

DEBT MATURITIES OF REITS THROUGH 1983 -- Mil. \$

<u>Trust & issue</u>	<u>Mil. \$</u>	<u>Trust & issue</u>	<u>Mil. \$</u>
<u>1975</u>		<u>1980</u>	
First Mtg. 9s '78/75-Sr.	\$16.0	Builders Inv.-Eurodollar	\$10.0E
Builders Inv.-Eurodollar	16.0E	Citz. Mtg. Inv. 8½s	20.0
Republic Mtg. 7¼s '90/75	6.8C	Colwell Mtg. 8.2s	25.0
YEAR TOTAL	\$38.8	First Vir. Mtg. VR	20.0
		Gulf Mtg. & Rl. 7.7s #	20.0
<u>1976</u>		Independence Mtg.	10.0P-S
Builders Inv.-Eurodollar	\$16.0E	Inst. Inv. Tr. 7-7/8s	20.0
C&S Realty 8-3/4s	15.0P-LOC	Midland Mtg. 8s	19.7
State Mutual-term	15.5T	Mtg. Inv. Wash. 8½s	15.0
YEAR TOTAL	\$46.5	NJB Prime 7s #	12.9
		Saul (B.F.) REIT 8½s	25.0
<u>1977</u>		State Mutual 9s	25.0
First Mtg. 8¼s '77	\$25.0	Tri-South Mtg. 7-3/4s	25.0
Gulf Mtg. & Rlty. -term	20.0T	YEAR TOTAL	\$247.6
Heitman Mtg.	20.0P-S		
Mtg. Inv. Wash.	10.0P	<u>1981</u>	
State Mut. Inv.-term	27.0T	Cabot C&F Land 8½s	\$23.0
U.S. Bancorp-term	10.0T	National Mtg. 6¼s	0.1C
YEAR TOTAL	\$112.0	National Mtg. 8½s	5.0
		YEAR TOTAL	\$28.1
<u>1978</u>			
Benef. Std. Mtg.	\$15.0T	<u>1982</u>	
Builders Inv.-Eurodollar	15.0E	Atico Mtg. 6-3/4s #	\$16.9
Builders Inv.-Eurodollar	9.8E	BT Mtg. 5-3/4s	20.0
Chase Man. 7-7/8s-senior	50.0	Cousins Mtg. 6½s	30.0
Cit. & So. Rlty. 6-3/4s #	30.0	First Mtg. 6-3/4s-senior	13.8
Diversified Mtg.-Eurodol.	30.0E	LMI Investors 6-3/4s	25.0
Nat. Mtg. Fund-Eurodollar	5.0E	Security 7¼s & 6s (2	
Saul (B.F.) REIT	25.0T	issues) #	70.0
YEAR TOTAL	\$179.8	Sutro Mtg. 6-3/4s	17.5C
		YEAR TOTAL	\$193.2
<u>1979</u>			
Alison Mtg. 8-3/4s	\$25.0	<u>1983</u>	
Cont. Ill. Rlty. 7-5/8s	25.0	Chase Man. Tr. 7½s	\$60.0
Great Amer. Mtg. 7.55s	25.0	Great Amer. Mtg. 8-3/4s	25.0
Guardian Mtg. 6-3/4s	25.0	YEAR TOTAL	\$85.0
Justice Mtg. 7-3/4s	20.0		
Nat. Mtg. Fund 8s	3.0C	E-Eurodollar debt. T-Non-public term.	
North Amer. Mtg. 5½s	30.0	P-Private placement. P-S-Private place-	
YEAR TOTAL	\$153.0	ment to trust sponsor. LOC-Letter of	
		credit pledged by sponsor for repayment.	

C-Convertible. VR-Variable rate. #Synthetic convertibles, may be used at par to exercise warrants.

lawyers, investment bankers and bankers. As indicated we doubt that many will come to fruition soon. Thus speculators will best approach the job by selecting those issues with highest probability of being taken out via a tender offer on a package basis, both to increase success probabilities and to guard against a disastrous bankruptcy which could tie up funds for years. In suggesting these packages we've grouped them according to the underlying risk in the portfolios as we perceive it from disclosures. We'll revise these packages periodically as new facts become available. In the groupings, 'extreme risk' refers to the risk of a bankruptcy proceeding without a tender. All things being equal, this should increase probabilities of a tender. Our groupings:

<u>Extreme risk</u>	<u>High risk</u>	<u>Medium risk</u>
Chase Manhattan 7-7/8s '78	Alison Mtg. 8-3/4s '79	BT Mtg. 8 ¹ / ₂ s '80
Cit. & So. Rlty. 6-3/4s '78	Citizens Mtg. 8 ¹ / ₂ s '80	Gulf Mtg. & Rlty. 7.7s '80
Barnett Mtg. 6-3/4s '91	Colwell Mtg. 8.2s '80	Inst. Inv. 7-7/8s '80
Grt. Amer. Mtg. 7.55s '79	Cont. Ill. Rl. 7-5/8s '79	Midland Mtg. 8s '80
Guardian Mtg. 7 ¹ / ₂ s '79	Cousins Mtg. 6 ¹ / ₂ s '82	Saul (B.F.) 8 ¹ / ₂ s '80
Justice Mtg. 7-3/4s '79	LMI Investors 6-3/4s '82	
State Mut. Inv. 9s '80	Tri-South Mtg. 7-3/4s '80	

The extreme risk grouping would provide current yield of about 33%, while the high risk category yields an average 26% and the medium risk group 17% average. We've tried to pick bonds with large outstanding floats so there is some trading. But we repeat that spreads between bid and ask prices are often very wide and most of these junk bonds are what traders call "workouts"--i.e., purchase price is very much a negotiation with sellers.

REIT bonds may become an alternate way of acquiring property from REITs. Nothing much has been said about this so far but the idea is rapidly becoming a possibility for some REITs. In fact, all manner of exchange possibilities for these discount bonds may be opened up, in ways only dimly perceived now. This is another piece of the bond puzzle which could ultimately bring fresh buying power into the field while sidestepping troublesome maturities.

The possibility of swapping bonds for REIT assets began when First Mortgage Investors, under pressure from four New York State savings banks who filed an involuntary Chapter X petition, expanded its loan swap program from banks to all public debtholders. The revised plan, now substantially approved except for one sticky detail (see below), would let debtholders negotiate at arms length with the trust to purchase real property from the trust. There are no restrictions on whether such debt would be senior or subordinate, one barrier until now.

Moreover, FMI has already completed one very similar deal. Earlier this year it accepted \$1.7 million face amount of senior debentures in cancellation of a mortgage debt by a borrower. As a result the trust reported a \$1.14 million extraordinary gain in the first half. The project involved was a six-story, wood-frame walkup apartment in Columbus, Ohio built in 1970-71 under a county building code permitting such apartments. But the state fire marshal subsequently denied a certificate of occupancy for the 350-unit apartment and after extended litigation, the units were razed early this year. FMI wrote down the loan from \$5.5 million and then accepted the discounted bonds, bought by the builder in the open market, in satisfaction of his debt.

Now Citizens & Southern Realty says it is considering the same treatment for its 6-3 4% subordinate debentures due 1978. If legal approvals are given, the trust would let its builder-borrowers tender these debentures at par in full or partial satisfaction of debt. And it may also let other persons exchange the debentures for assets of the trust, thus expanding its swap program. Such a program would depend upon approval of its banks, among other things. C&S has \$30 million of the subordinate debentures outstanding and they currently trade at about 25 to yield about 27%. More importantly, they offer a possible path for acquiring property at a much steeper discount than trusts are willing to sell it for in open-market dispositions.

FIRST MORTGAGE INVESTORS RACES CALENDAR TO LIFT CHAPTER X BY NOV. 30

First Mortgage Investors must go back to holders of its 9% senior debentures a second time and ask them to agree to a stretched-out repayment plan. The situation is extremely complex but illustrates some risks shouldered by REIT debtholders (see

preceding item). Here's where FMI debenture holders stand. The debentures mature Nov. 1, 1978 but the \$16 million issue was sold with a provision that holders could elect early maturity Nov. 1, 1975. A deeply troubled portfolio and tight bank credit agreement precluded normal repayment so the trust developed a plan, part of an overall debt restructuring, calling for holders to receive 25% on Nov. 1, an additional 10% each six months thereafter until the final 25% was to be paid Nov. 1, 1978.

On Oct. 28 holders voted 66.98% to waive all acts of default, which in effect meant that holders who still wanted their money back Nov. 1 would have had to sue individually for principal repayment instead of having the indenture trustee sue in their behalf. But even then \$9 million of debenture holders refused to go along with the extended payment plan and continued to demand repayment of 100% of principal. Here FMI's banks have balked and refused to sign the total debt restructuring involving about \$500 million until virtually all 9% debenture holders go along. FMI has just mailed a second plea to holders to go along and hopes for answers by Nov. 20. After that it will try personal calls on holders, because its failure to pay principal and/or interest on Nov. 1 will throw the trust into default with its banks on Nov. 30. The situation is described as "nip and tuck." Finally, if 9% holders decide to go along by Nov. 30, then FMI must go into Federal court in Boston and ask for lifting of an involuntary Chapter X petition filed Sept. 3 by four New York State savings banks. The banks have agreed to seek withdrawal of their petition--if the 9% holders go along with the overall debt restructuring.

NEW GRANT CLOSINGS HIT 14 REIT STORES, LEAD TO DIVIDEND OMISSION BY SUMMIT PROPERTIES

Deeply troubled W.T. Grant Co. will close another 280 stores, bringing closings to 581 stores since it filed Ch. XI bankruptcy proceedings Oct. 2 (see RTR, Oct. 10 & 24). All will be closed by Dec. 31 at annual rent savings Grant estimates at \$51 million. The retail chain now has shrunken back to 493 stores generally east of Cleveland, O. and north of Baltimore, Md. REITs were harder hit in this latest wave of closings than in any previous cutback, with REITs losing 14 stores and a distribution warehouse.

Hardest hit is Summit Properties (2-OTC), whose four Grant locations in Florida now have all been closed. All were in Grant Plazas in Daytona Beach, Tamarac, Venice and Ft. Myers, totaling 350,000 sf. The Daytona Beach unit is in process of being re-leased at about \$121,500 for the coming fiscal year, about 17% below Grant rents. Grant rents provided about 8.8% of Summit rent rolls and because of uncertainties over re-leasing, Summit omitted its fourth quarter dividend. It had paid 5-cents in September. Other trusts hit in this new closing:

ICM Realty (8-ASE) also had three more stores closed in centers on which it holds land purchase/leasebacks in Cahokia, Ill., Madisonville, Ky. and North Canton, O. Grant had occupied 355,000 sf, or 63%, of the 565,000 sf in these centers. All are on land leases so that center owners will be responsible for re-leasing. All rents are current and the centers have been paying overages, evidence of their competitiveness. A fourth Grant unit in an ICM center was closed earlier. The four centers contributed 1.8% to ICM income last year, and total investment is \$1.28 million, or 1.2% of investments.

API Trust (5-3/4--OTC--formerly Arlen Property Investors) loses two additional stores, meaning three of four Grant units in shopping centers it holds under land purchase/leasebacks have now been closed, including Grant units in Concord, N.C., Dalton, Ga. and Knoxville, Tenn. A fourth Grant store in Newport, R.I. remains open. These centers provide a relatively small income stream to API and again the land tenants are responsible for re-leasing.

Florida Gulf Realty Trust (9 1/4--OTC) had two Grant stores totaling 119,000 sf. closed in centers in Ocala and Mt. Dora, Fla. The two Grant units provided about 4.1% of total rents last year. Major retailers have inquired about the space.

Federal Realty (10--ASE) will have one of its two Grant stores closed, a 67,200 sf

unit in Elizabeth City, N.C. The store contributed about 1.7% of trust rent in 1974. B.F. Saul (3½--NYSE) will have one additional store closed in a shopping center under land purchase/leaseback in Atlanta, Ga. UMET Trust (1-1/8--NYSE) holds a \$700,000 land leaseback position under the Summit shopping center in Tamarac, Fla.; the investment is 0.5% of invested assets. U.S. Realty Investments (1½--NYSE) holds \$6.8 million in mortgages on six centers with Grant tenancies; all these stores have now been closed. The investment represents about 5.2% of trust investments. Investors Realty Trust (3½--ASE) holds a \$250,000 land leaseback on a Boynton Beach, Fla. shopping center where Grant has closed its 65,000 sf unit. The investment contributed 0.4% of trust income last year. With closing of all Grant Florida and Georgia operations, Hubbard Real Estate (11-3/4--NYSE) will have the Albany, Ga. distribution warehouse on which it holds a \$4.0 million first mortgage and \$209,000 land lease position closed. Grant also has closed seven of 10 stores held on net leases from HRE. The Albany, Ga. closing will bring total impacted investments to about \$17.6 million, or about 21% of investments. HRE shares have rallied after an initial setback following Grant's bankruptcy filing, an indication that the market is not overly concerned with REIT involvement in Grant's affairs.

FRASER MORTGAGE INVESTMENTS (8¼--OTC-FRASS) FY May 31

Portfolio dynamics: The trust's investments increased 7% over the past year. The portfolio could shrink 20% by fiscal yearend as new fundings will be nominal, less than \$1 million in fundings being undisbursed. The degree of repayments, however, will depend on permanent financing being available for the trust's construction loans. The portfolio is 67% first mortgages and 33% second mortgages in the following categories: 17% first mortgage construction loans, 10% first mortgage condominium conversion loans, 14% land loans, 19% completed projects, 4% other and 36% long term. The construction loans are 84% shopping centers. By location, holdings are concentrated 31% Ohio, 25% Florida, 12% Pennsylvania, 8% Kentucky, 6% Georgia and the remaining 18% in eight other states.

On Aug. 31, the trust's problem category totalled \$4.62 million, 9.6% of the portfolio. Fraser does not include some delinquent loans which it considers only late payers. But being small and having grown slowly, this trust has its loans under good control with strong borrowers. Four land loans are not accruing. One is for \$76,000 in Bellefontaine, O. on which it could lose up to \$25,000. There is \$150,000 on 61 acres in Lancaster, O. which is coming to sheriff's sale. With two other lenders behind it, the trust feels safe. There is \$450,000 on beach property in Naples, Fla. where foreclosure is underway. Since location is prime and Naples is not overbuilt, the feeling is principal will be recovered plus some interest. There is \$442,000 in another Naples beachfront alongside a 150-room Ramada Inn; Fraser will bid at a sheriff's sale and eventually it can recover at least its principal. One construction loan is not accruing, on some Naples condominiums. Now down to \$180,000, Fraser expects to be out in 90-120 days. Some completed projects with short-term mortgages are non-accruing. There is \$425,000 on Dayton, O. apartments for which already adequate security was augmented. There is \$330,000 on Atlanta, Ga. apartments. The project is full but in this era of higher expenses, the second mortgage is not being covered. The owner is working to sell it and could pay off the trust in six months. There is \$260,000 in a Southfield, Mich. office building. While replacement cost exceeds the mortgages, depressed economic conditions in this area dampen the building's value. Fraser may lose its entire \$260,000 here, its biggest potential loss. There is \$2.2M in a 116-unit condo conversion in Atlanta, Ga. The trust had a new party take over. Over 50% sold, the trust is warehousing the individual condo loans. It will take eight more months. The trust then looks forward to selling the loan package whose face value would exceed its investment and principal and some accrued interest would be recovered.

The trust's position in second mortgages is better than it looks. In some it has other liens beyond the mortgaged property to augment its security. In others,

e.g., the seconds on big shopping centers with large first mortgages ahead of them, the trust deals with such prime developers as Cafero of Youngstown, O.

Financing: Trust is 33% capital and 67% debt. Capital is all equity, 1,037,580 shares. About 85% of \$36M debt is with banks. Thus about 60% of funds float.

Sponsor: Fraser Mortgage Co., moderate sized mortgage banker based in Cleveland.

Results & outlook: Earnings and dividends are likely to remain essentially flat for the next few quarters. The important thing is the trust has survived and appears to be continuing to survive a most difficult real estate period. Because of its clean capitalization (no warrants, converts or second equity financings), it is well situated to resume growth. While small in size, this has proved advantageous. The adviser is capable in many real estate facets and apparently conservative in dealing with long standing developer relationships where financial strength proved itself. The shares sell at a premium relative to the group but still offer above-average value, 50% below book value and yielding 14½%. The shares still seem worth purchasing for speculative income and recovery. (BS)

LOMAS & NETTLETON MORTGAGE INVESTORS (13--NYSE-LOM) FY June 30

Portfolio dynamics: Funded investments declined 12% in the year to Sept. 30. This brought fundings under \$300 million, continuing the shrinkage from nearly \$400 million in early 1974. Further reduction of 7% is expected in the next two quarters to \$275 million after which investments may stabilize within 5% of that in the June 1976 quarter. The recent breakdown was first mortgage construction loans (52%): 19% apartments, 5% office buildings, 11% single family, 5% shopping centers, 3% hospitals and 9% other commercial properties; other first mortgages: 29% acquisition & development loans and 4% other; 4% second mortgages; under 1% GNMA's; 9% foreclosed properties and 1% long-term lease rentals. Holdings are in 40 states, concentrated 44% in the home state of Texas, 9% Colorado, 7% Florida, 5% Arizona, 4% each Georgia and Louisiana, and 3% Delaware, these accounting for 76% of portfolio location. About 57% of loans are covered by takeouts. Little problem is seen for existing takeouts to be fulfilled but new takeouts with reasonable rates are tough to obtain. One trust official felt long-term rates could ease in time, reflecting at least partial response to the decline in short-term rates.

The trust's most important lending relationship is with Trammell Crow-related entities. In June, loans to such entities were \$45 million, 15% of the trust's portfolio, and nearly \$9 million remained to be funded. The Crow fundings were reduced some in the Sept. quarter mostly in line with the whole portfolio. Mr. Crow, a prominent Texas real estate developer with national interests, has been in the news lately with liquidity problems. Having good marketable assets in partnership with other strong parties, Crow has apparently been successful in raising most of the \$45 million he desires for his enterprises and is said to be ahead of target for this goal. As a fairly strong developer, Crow did not come under pressure until the real estate recession was nearly two years old but appears able to continue weathering it. He is thought to be working out of deals with varying degree of hardship depending on the particular deal and which side of the table you're on.

Problem loans shot up in the last two quarters after having been exceptionally low for mortgage lending trusts. By Sept., non-accruing loans were \$45 million and foreclosed properties \$26 million, a total of \$71 million equal to 24% of assets. This is still well below the 62% non-earning average for all mortgage trusts. The problem categories break down, non-accruals: 8% single family homes, 11% condos, 6% single family lots, 5% recreation and second home lots, 29% completed income properties, 8% partially completed properties, 30% land, 1% individual lots and 2% other. Foreclosures are 18% single family homes, 3% condos, 12% single family lots, 13% completed properties, 9% incompleting properties, 43% land and 1% other. Problems are being vigorously worked on by the sponsor through 90 branch mortgage banking offices. As expected at this part of the cycle, finished properties are closer to workout or resale while much of the land, \$25 million or 35% of the problem category,

may have to await the next development cycle. The trust publicly stated its non-earnings could peak about \$10 million higher during the current (December) quarter.

Financing: Trust is 37% capital, 63% debt. Capital is all equity, 3.7 million shares. Debt is 19% short term to banks, 18% commercial paper, 13% bank note and 50% long term to banks. For practical purposes, 63% of funds float with prime.

Sponsor: Lomas & Nettleton Financial, nation's largest mortgage banker.

Results & outlook: Sept. quarter earnings were \$0.51 vs. deficit of \$0.23 in the June quarter after \$0.87 special charge to allow for the new holding cost rule. Operating earnings and dividends will be down further in the December quarter but should start turning up in the March quarter. Recovering slow and modest, full year results will probably trail fiscal 1975. A good fraction of problems may drag 18-24 months. When real estate recovers, however, LOM, which has already proved itself, will be in position to take a greater market share of construction financing. The shares are an attractive speculative holding for longer term recovery and continuing income, although for at least two more quarters payment will dip. (BS)

BAIRD & WARNER MORTGAGE AND REALTY INVESTORS (7½--OTC-BAIDS) FY July 31

Portfolio dynamics: Fundings shrunk 27% over the past twelve months bringing them 38% below the peak recorded two years ago. The outlook now is for fundings to remain level for the next two-three quarters. Existing commitments, \$12.9 million, will be funded and there will be some repayments. The portfolio is 75% mortgage loans, 7% foreclosed real estate and 18% equity investments. The mortgage portion breaks down: 11% apartments, 20% condos, 4% office buildings, 35% industrial, 15% shopping centers, 9% land and 6% other. The apartment segment fell to 11% from 30% a year before, industrial rose to 35% from 21% and shopping centers climbed to 15% from 4%. The owned real estate consists of eight properties: 35% office building, 5% industrial, 28% in two shopping centers, and 32% in four apartments. This trust concentrates in the midwest with 90% of its loans in the Great Lakes states. Some 45% of the portfolio floats.

Problems totalled \$12.46 million in July, 30% of the portfolio. These are in two categories: \$9.65 million non-accruing loans and \$2.81 million foreclosed properties. The loan category consists of \$2.2 million on eight land loans, five scattered in small Illinois communities and three in Indiana; \$4.26 million on five completed condominiums which are said to be good properties but experiencing slow sales, they are in Chicago, Wisconsin and on the East Coast; the remaining \$3.18 million is on a completed motel in Wisconsin and an office building in Chicago currently being leased. The foreclosed category consists of \$1.12 million in two quadrominiums, the one in Medina, O. is virtually sold out and a profit is expected, the one in Aurora, Ill. is slow, just starting to get closings; \$1.68 million is in two land loans, Washington, D.C. and the Memphis, Tenn. area, nothing much can be done with these for now. The trust is not indicating the nearby course of its problem loan trend.

Financing: Trust is 54% capital and 46% non-convertible debt. Capital is 83% equity with 1,042,887 shares and 17% in 6 3/4% convertible debentures. Debt of \$19.8 million is 86% short-term bank notes and 14% mortgages on property. No financing changes are planned with the portfolio outlook flat. Sponsor: Baird & Warner Co., Chicago mortgage banker and realty firm.

Results and outlook: Operating earnings have been narrowed by rising non-earnings. Thus October quarter results probably remained in the depressed \$0.03 range of the July quarter. Dividends will be maintained at the \$0.30 quarterly rate through May 1976 reflecting special distribution for fiscal 1975. Problem land loans, 9% of assets, look like they will be unproductive for a while. Most of the rest of the portfolio, however, looks under control. This small, conservatively leveraged situation looks quite viable long term and the shares' modest premium still allows for good value. We would not hurry to purchase shares here but would prefer signs of problem loans stabilizing. (BS)